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SIPDIS

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SUBJECT: BRAZIL AND THE OECD: CO-HABITATING FOR NOW, BUT
MAYBE MARRIAGE IN THE FUTURE

REF: A) 04 PARIS 7565, B) 04 PARIS 7595, C) BRASILIA 172,
D) BRASILIA 43

[1](#)1. (U) THIS CABLE WAS COORDINATED WITH AMCONSULATES RECIFE,
RIO DE JANEIRO, AND SAO PAULO.

[1](#)2. (U) SUMMARY. WHILE PRESIDENT LULA AND FOREIGN MINISTER
AMORIM SUPPORT THE IDEA OF EVENTUAL BRAZILIAN ACCESSION TO
THE OECD, ENTRY INTO THAT ORGANIZATION IN THE SHORT-TERM IS
NOT CURRENTLY ONE OF THE GOB'S HIGHER PRIORITIES. INSTEAD,
THE GOB PREFERS TO GRADUALLY INCREASE ITS PARTICIPATION IN
VARIOUS OECD COMMITTEES AND WORKING GROUPS UNTIL BRAZILIAN
ACCESSION BECOMES A FOREGONE CONCLUSION. FOREIGN MINISTRY
DIPLOMATS BELIEVE THAT SUCH A POLICY (I.E. ENGAGEMENT
LEADING UP TO ENLARGEMENT) WILL ENABLE BRAZIL TO REAP THE
ECONOMIC/TECHNICAL BENEFITS OF WORKING WITH THE OECD,
WHILE, ON THE POLITICAL SIDE, MAINTAINING THE COUNTRY'S
DESIRED ROLE AS A BRIDGE BETWEEN THE DEVELOPED AND THE
DEVELOPING WORLD. WHILE THE LOCAL PRESS HAS SPECULATED
ABOUT THE GOB'S PROSPECTS FOR SOON JOINING THE SO-CALLED
"RICH COUNTRIES' CLUB," OFFICIALS IN BRAZIL'S OECD SUPPORT
SECRETARIAT, WHO MAY BE EVEN MORE FORWARD-LEANING ON THE

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MEMBERSHIP ISSUE THAN THOSE AT THE POLICY LEVEL, STRESS
THAT THE GOVERNMENT DOES NOT NOW HAVE SUFFICIENT
INFRASTRUCTURE IN PLACE INTERAGENCY TO FULFILL THE DEMANDS
THAT ACTIVE MEMBERSHIP WOULD IMPOSE. MEANWHILE, THE GOB
CONTEMPLATES PROCEEDING IN TANDEM WITH DEVELOPING COUNTRY
POWERS SUCH AS CHINA, INDIA, AND SOUTH AFRICA AS IT SEEKS
TO INTENSIFY ITS RELATIONSHIP WITH THE OECD. END SUMMARY.

BRAZILIAN THINKING REGARDING MEMBERSHIP

[1](#)3. (SBU) IN A WIDE-RANGING JANUARY 12 MEETING, ANTONIO
SIMOES, ECONOMIC ADVISOR TO FOREIGN MINISTER CELSO AMORIM,
TOUCHED UPON THE GOB'S CURRENT APPROACH TO OECD ISSUES.
THE POSITION THAT PRESIDENT LULA AND FORMIN HAD ADOPTED, HE
SAID, WAS THAT MEMBERSHIP IN THE OECD WOULD NOT BE AVERSE
TO BRAZILIAN NATIONAL INTERESTS AND, INDEED, WOULD BE A
POSITIVE STEP FOR THE COUNTRY. ENTRY INTO THE OECD WOULD
DEMONSTRATE THAT THE OFT-QUOTED LINE ABOUT BRAZIL ETERNALLY
BEING THE COUNTRY OF THE FUTURE WAS OUT-OF-DATE, HE STATED.

[1](#)4. (SBU) HOWEVER, SIMOES ADDED, BRAZIL DID NOT WANT TO TAKE
THE APPROACH THAT MEXICO DID IN ITS ACCESSION TALKS, WHICH
HAD LEFT SOME DEVELOPING COUNTRIES WITH HURT FEELINGS WHEN
THE GOM ABRUPTLY DUMPED THE G-77 TO WOO THE OECD. DRAWING
UPON THE ROMANTIC LIAISON ANALOGY EVEN FURTHER, HE OBSERVED
THAT THE BEST STRATEGY WAS FOR BRAZIL TO CONTINUE
INTENSIFYING ITS ENGAGEMENT WITH THE OECD TO SUCH A POINT
THAT IT WOULD SEEM NATURAL FOR THE TWO PARTIES TO TIE THE
KNOT. IDEALLY, SIMOES DECLARED, BRAZIL WOULD JOIN AT THE
SAME TIME AS OTHER DEVELOPING COUNTRY POWERS LIKE INDIA AND
SOUTH AFRICA. SUCH AN APPROACH WOULD FIT WITH LULA'S
VISION THAT BRAZIL'S ROLE ON THE INTERNATIONAL STAGE SHOULD
BE AS A BRIDGE-BUILDER BETWEEN NORTH AND SOUTH. THE WORST
SCENARIO, SIMOES OPINED, WOULD BE FOR BRAZIL TO LOUDLY
KNOCK AT THE OECD'S DOOR, ONLY TO BE LATER TOLD THAT ENTRY
WAS NOT POSSIBLE - AS WAS THE CASE WITH ARGENTINA.

[1](#)5. (SBU) COMMENT. AS LULA HAS SPOKEN ON THE MATTER OF
PURSUING OECD MEMBERSHIP (OR AT LEAST, THE FOREIGN MINISTRY
HAS SPOKEN FOR HIM), GOB POLICY ON THIS ISSUE HAS BEEN SET.
GIVEN THEIR DRUTHERS, HOWEVER, IT APPEARS THAT THE
MINISTRIES OF FINANCE, AGRICULTURE, AND
DEVELOPMENT/INDUSTRY, AS WELL AS SOME PARTS OF THE FOREIGN
MINISTRY'S ECONOMIC DIRECTORATE, WOULD PREFER A MORE
AGGRESSIVE STANCE. THEIR ENTHUSIASM, THOUGH, IS COUNTER-
BALANCED BY OPPOSITION FROM THE MORE ORTHODOX LEFTIST WING
OF THE PRESIDENT'S PARTY (THE PT, I.E., THE WORKER'S
PARTY).

[1](#)6. (SBU) AS FOR THE PRIVATE SECTOR'S VIEWS, A SENIOR

ECONOMIST AT THE NATIONAL CONFEDERATION OF INDUSTRIES (CNI), TOLD EMBOFF THAT BRAZILIAN INDUSTRY BELIEVED OECD MEMBERSHIP WOULD BE POSITIVE FOR BRAZIL. INDEED, CNI ALREADY HAS PARTICIPATED IN SOME OECD EVENTS, HE SAID, MOST RECENTLY AS PART OF THE BRAZILIAN DELEGATION TO THE NON-MEMBER REVIEW OF BRAZIL IN LATE 2004. THAT SAID, THE ECONOMIST ADMITTED THAT BRAZILIAN BUSINESS HAD LITTLE IDEA WHAT BRAZIL WOULD BE REQUIRED TO DO TO BECOME AN OECD MEMBER. THE LULA/AMORIM FORMULATION - AS ARTICULATED BY SIMOES - APPEARS TO BE A PRAGMATIC SOLUTION DESIGNED TO MAKE ALL CAMPS HAPPY: MEMBERSHIP IS NOT PRECLUDED, BUT WHEN AND IF THAT HAPPENS IT WOULD TAKE PLACE IN CONJUNCTION WITH FELLOW THIRD WORLD TRAVELERS. END COMMENT.

FOCUS ON FIRST INCREASING TECHNICAL CAPACITY

17. (SBU) WORKING-LEVEL DIPLOMATS WITHIN THE FOREIGN MINISTRY (ITAMARATY) EMPHASIZE THAT EVEN IF THE ACCESSION ISSUE WERE RIPE FOR DISCUSSION, BRAZIL STILL WOULD HAVE A GREAT DEAL OF WORK TO DO BEFORE IT COULD TAKE FULL ADVANTAGE OF THE BENEFITS OF MEMBERSHIP. SINCE 1993, WHEN BRAZIL FIRST BEGAN PARTICIPATING IN OECD COMMITTEES, THE FOREIGN MINISTRY HAD VIEWED OECD MATTERS AS FALLING EXCLUSIVELY WITHIN THEIR PURVIEW. AWARE THAT THE SMALL OFFICE WITHIN ITAMARATY THAT HANDLED THESE MATTERS WAS UNABLE TO COORDINATE ON A GOVERNMENT-WIDE BASIS, IN APRIL 2003 THE GOB CREATED A HIGH-LEVEL INTERAGENCY COMMITTEE TO LOOK AT THIS CLUSTER OF ISSUES. LED BY FOREIGN MINISTRY U/S CLODOALDO HUGUENEY, WHO SOON WILL BE DEPARTING BRASILIA TO BECOME GOB AMBASSADOR TO THE WTO, THE COMMITTEE THEN CREATED WORKING GROUPS TO MONITOR EACH OF THOSE OECD COMMITTEES IN WHICH BRAZIL PARTICIPATES. HOWEVER, ITAMARATY OFFICIALS POINT OUT THAT OECD WORK IS NEW TO A NUMBER OF MINISTRIES, AND, IN PARTICULAR, BRAZIL NEEDS TO WORK HARDER TO UPGRADE ITS PARTICIPATION ON TECHNICAL AND STATISTICAL ISSUES.

18. (SBU) IN ADDITION, STAFFERS FROM BOTH THE MINISTRY OF FOREIGN AFFAIRS AND THE MINISTRY OF DEVELOPMENT AND INDUSTRY NOTE AS COLLABORATING WITH THE OECD IS AN ENDEAVOR THAT WILL LIKELY ONLY BRING SIGNIFICANT BENEFITS IN THE LONG-TERM, THIS ISSUE SOMETIMES LOSES OUT TO HIGHER PRIORITY ECONOMIC ISSUES. WITHIN THE MINISTRIES, ONE DIPLOMAT TOLD US, THERE IS SIMPLY GREATER ATTENTION PAID TO PRESSING SHORT AND MEDIUM RUN CONCERNS, SUCH AS MACRO-ECONOMIC POLICY AND EXPORT AND TRADE PROMOTION.

WAITING IS JUST FINE

19. (SBU) IN THE WAKE OF HUGUENEY'S SEPTEMBER 15, 2004 MEETING WITH AMBASSADOR MORELLA, FOREIGN MINISTRY OFFICIALS ARE INTIMATELY FAMILIAR WITH THE USG POSITION ON ENLARGEMENT AND REALIZE THAT VERY LITTLE IS LIKELY TO HAPPEN IN TERMS OF MEMBERSHIP DISCUSSIONS UNTIL THE OECD'S ON-GOING EFFORTS AT STRUCTURAL REFORM ARE COMPLETE. (REFS A AND B). INDEED, GIVEN THE GOB'S GO-SLOW POLICY AND ITS DESIRE TO DEEPEN ITS INTERAGENCY SUPPORT INFRASTRUCTURE, BRAZIL'S STANCE APPEARS TO MESH WITH THE USG VIEW THAT ENLARGEMENT IS AN ISSUE THAT NEEDS TO BE DEALT WITH ONCE THE ORGANIZATION STREAMLINES ITS GOVERNING PROCESS. WAITING IS JUST FINE FOR THE GOB, AS LONG AS NO OTHER DEVELOPING COUNTRY - I.E., CHINA, RUSSIA, INDIA, SOUTH AFRICA OR ARGENTINA -- STEPS TO THE HEAD OF THE LINE. (MINISTRY SOURCES HAD NO PROBLEM, HOWEVER, WITH CHILE OR ISRAEL ENTERING AHEAD OF BRAZIL, AS THEY FELT THAT THESE WERE "DONE DEALS.") IN THE MEANTIME, ITAMARATY STAFFERS SAY THAT THEY WILL CONTINUE TO EXPAND THEIR PARTICIPATION IN OECD COMMITTEES/WORKING GROUPS AND BEEF UP THEIR OECD UNIT AT THE GOB EMBASSY IN PARIS.

OECD ENGAGEMENT WOULD BOLSTER USG BILATERAL ECONOMIC AGENDA

110. (SBU) OUR VIEW HERE IS THAT GETTING-TO-KNOW-YOU EVENTS SUCH AS THE DECEMBER OECD GLOBAL DIALOGUE ON ENERGY WITH BRAZIL, RUSSIA, AND CHINA ARE AN IDEAL RECIPE FOR MOVING FORWARD IN THE FUTURE. THE MISSION'S BILATERAL ECONOMIC AGENDA WITH BRAZIL INCLUDES TOPICS LIKE IMPLEMENTING AN EVEN-HANDED REGULATORY POLICY, ANTI-CORRUPTION, PROMOTION OF SMALL AND MEDIUM-SIZED ENTERPRISES (SME), FAIR TREATMENT FOR INVESTORS, AND RESPECT FOR INTELLECTUAL PROPERTY RIGHTS - ALL ISSUES OF IMPORTANCE TO BRAZIL AND ON WHICH THE OECD HAS A STRONG VOICE. INDEED, BRAZIL ITSELF HAS MOVED TO PROMOTE EXPANDED EXCHANGES ON THESE QUESTIONS. IN SEPTEMBER 2004, IT HOSTED AN OECD CONFERENCE ON IMPLEMENTATION OF THAT ORGANIZATION'S ANTI-BRIBERY CONVENTION, AND THE GOB IS PLANNING TO HOST AN OECD INVESTMENT CONFERENCE THIS YEAR AND AN EVENT ON FINANCING FOR SME'S IN 2006. BRAZIL ALSO APPEARS TO BE EMBRACING PARTICIPATION IN RENEGOTIATING THE OECD SECTORAL UNDERSTANDING ON AIRCRAFT FINANCING, AN OBVIOUS TIE-IN GIVEN THE COUNTRY'S STATUS AS THE WORLD'S FOURTH LARGEST AIRCRAFT PRODUCER.

111. (SBU) FROM A BILATERAL PERSPECTIVE, SHORT-TERM BRAZILIAN ENGAGEMENT WITH, FOLLOWED BY EVENTUAL ENTRY INTO, THE OECD WOULD BE IN THE USG'S INTEREST. WHILE THE USG AND

BRAZIL HAVE A HEALTHY DIALOGUE ON ECONOMIC ISSUES, CONSTANT USG "NAGGING" MAY HAVE MADE THE GOB TONE DEAF TO SOME OF OUR COMPLAINTS. HAVING THE OECD - VIEWED HERE AS A WELL-RESPECTED FORUM FOR SHARING TECHNICAL AND POLICY EXPERTISE - MAKE SUBSTANTIALLY THE SAME POINTS MIGHT HELP THE MESSAGE SINK IN. AND THE FACT THAT THE GOB VIEWS ACCESS TO SOUND POLICY TECHNICAL ADVICE AS ONE OF THE CHIEF BENEFITS OF A CLOSER RELATIONSHIP WITH THE OECD, MEANS THAT POLICYMAKERS HERE SHOULD GENERALLY PROVE RECEPTIVE TO COUNSEL COMING FROM THAT ORGANIZATION.

CONTINUED ECONOMIC EXPANSION KEY TO ENHANCED ENGAGEMENT

12. (SBU) ULTIMATELY, THE SUCCESS THE GOB ENCOUNTERS IN ITS EFFORTS TO INTENSIFY ITS COOPERATION WITH THE OECD WILL LIKELY DEPEND UPON THE COURSE OF THE COUNTRY'S ECONOMY. CURRENTLY, BRAZIL IS ENJOYING ITS BEST MACRO-ECONOMIC MOMENT IN YEARS, WITH GDP GROWTH AT 5 PERCENT, INFLATION AT 7 PERCENT, A US\$11.7 BILLION CURRENT ACCOUNT SURPLUS, AND A RECORD US\$33.6 BILLION TRADE SURPLUS (REF C). TO ENSURE CONTINUED GROWTH IN THE LONG-TERM, THE LULA ADMINISTRATION IS SEEKING CONGRESSIONAL PASSAGE OF A SERIES OF MICRO-REFORMS DESIGNED TO CUT GOVERNMENT SPENDING, REMOVE BARRIERS TO EXPORT, MODERNIZE TRANSPORTATION INFRASTRUCTURE, AND STREAMLINE GOVERNMENT BUREAUCRACY (REF D).

13. (SBU) IF ALL GOES WELL - WITH BOTH THE MACRO-ECONOMY AND THE IMPLEMENTATION OF THE MICRO-REFORMS - BRAZIL WILL MOVE CLOSER TO OECD NORMS IN TERMS OF TRANSPARENCY, EVEN-HANDEDNESS, AND BALANCED PUBLIC ACCOUNTS. HOWEVER, SHOULD THE GOB'S MICRO-REFORM AGENDA STUMBLE, IT MAY PROVE DIFFICULT FOR THE GOB TO BRING ABOUT LONG-TERM, SUSTAINABLE GROWTH. AND SHOULD THE MACRO-ECONOMY FALTER, MANY WITH THE WORKER'S PARTY (I.E., THE PRESIDENT'S PARTY) MAY CALL FOR POPULIST SOLUTIONS WHICH LULA, EVER THE PRAGMATIST, MAY BE HARD PRESSED TO REJECT. SUCH A COURSE WOULD MOVE BRAZIL FURTHER AWAY FROM OECD NORMS AND PRACTICES. WHAT KIND OF COURTSHIP CAN WE EXPECT?

14. (SBU) ASSUMING ALL GOES WELL WITH THE BRAZILIAN ECONOMY, WHAT MIGHT THE USG EXPECT AS BRAZIL AND THE OECD DRAW CLOSER TOGETHER? IN LINE WITH ITS DESIRE TO SERVE AS A USEFUL BRIDGE BETWEEN NORTH AND SOUTH, THE GOB MIGHT INJECT A DEVELOPING COUNTRY PERSPECTIVE INTO OECD DISCUSSIONS ON DEVELOPING COUNTRY CONCERNS SUCH AS HUNGER, POVERTY, AND TECHNOLOGY TRANSFER WHILE EXPOUNDING OECD VIRTUES SUCH AS TRANSPARENCY AND FISCAL DISCIPLINE TO THE G-77. (LULA'S ATTENDANCE IN LATE JANUARY AT BOTH THE WORLD ECONOMIC FORUM IN DAVOS AND THE ALTERNATIVE WORLD SOCIAL FORUM IN PORTO ALEGRE IS A GOOD EXAMPLE OF THE GOB'S DUAL VISION.) INDEED IN MANY WAYS, BRAZIL IS WELL-SUITED TO PLAY THIS ROLE IN VIEW OF THE COUNTRY'S STRONG DIPLOMATIC TRADITION AND ITS MIX OF FIRST WORLD INDUSTRY WITH THIRD WORLD POVERTY. FROM THE OECD'S PERSPECTIVE, THE ADDITION OF BRAZIL TO ITS LIST OF CLOSE PARTNERS - OR, ALTERNATIVELY, AS A FULL-FLEDGED MEMBER - WOULD DO MUCH TO ENHANCE THE ORGANIZATION'S GLOBAL INFLUENCE.

15. (SBU) HOWEVER, THE QUESTION OF WHETHER ULTIMATELY THE TWO PARTNERS ARE REALLY COMPATIBLE STILL REMAINS. WHEN BOTH SIDES START CONVERSING REGARDING THE SPECIFICS OF ACCESSION, AT SOME POINT BRAZIL WILL BE ASKED TO COMMIT FULLY TO THE BASIC PILLARS OF THE OECD'S "ACQUIS," (AT A MINIMUM, THE CONVENTION ON THE OECD, THE RULES/REGULATIONS OF THE ORGANIZATION, THE INTERNAL DECISION OF THE COUNCIL, THE JUDGMENTS OF THE OECD ADMINISTRATIVE TRIBUNAL, AND ALL SUBSTANTIVE OECD INSTRUMENTS). WHILE BRAZIL HAS ALREADY EMBRACED SOME KEY OECD DOCUMENTS (FOR INSTANCE, THE GOB RATIFIED THE ANTI-BRIBERY CONVENTION IN 2000) IT BY NO MEANS HAS SIGNED ON TO THE FULL SET OF COMMITMENTS. - NOR HAS IT DEMONSTRATED THAT IS HAS SERIOUSLY CONSIDERED A STRATEGY FOR OBTAINING A DOMESTIC CONSENSUS FOR ACCEPTANCE OF SUCH OBLIGATIONS. AND THE ACQUIS, OF COURSE, WOULD BE THE MINIMUM REQUIRED FOR ENTRY - INDIVIDUAL OECD COMMITTEES COULD CONCEIVABLY SEEK ADDITIONAL ACCESSION REQUIREMENTS. ONE REQUIREMENT THAT THE GOB MIGHT FIND A PARTICULARLY HARD PILL TO SWALLOW - WERE THE OECD TO REQUEST THIS - WOULD BE SURRENDER OF THE COUNTRY'S DEVELOPING COUNTRY STATUS IN THE WTO: A DESIGNATION WHICH BENEFITS BRAZIL IN TRADE NEGOTIATIONS.

DANILOVICH